

MEMORANDUM TO: Chairman Meserve

FROM: Hubert T. Bell
Inspector General

SUBJECT: MEMORANDUM REPORT: REVIEW OF NRC'S
IMPLEMENTATION OF THE FEDERAL MANAGER'S
FINANCIAL INTEGRITY ACT FOR FISCAL YEAR 2000
(OIG-01-A-07)

Attached is the Office of the Inspector General's (OIG) memorandum report titled, *Review of NRC's Implementation of the Federal Manager's Financial Integrity Act [FMFIA] for Fiscal Year 2000*. OIG found that, for FY 2000, NRC complied with FMFIA. OIG's report also notes that NRC continues to have two material internal control weaknesses. The first is the lack of managerial cost accounting, and the second is inadequate controls over the license fee development process. During FY 2000, the agency made progress and resolved a significant aspect of the cost accounting deficiency.

On February 14, 2001, The Executive Director for Operations and the Chief Financial Officer responded to our draft report and disagreed that the issues presented are material weaknesses. The response is included in its entirety at Attachment I. OIG will continue to report these issues as material weaknesses until the agency implements corrective actions. Because NRC is already pursuing resolution of these issues, this report contains no recommendations.

BACKGROUND

The FMFIA was enacted on September 8, 1982, in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems. Congress felt such abuses hampered the effectiveness and accountability of the Federal Government and eroded the public's confidence. FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible. FMFIA also requires that, each year, the head of each executive agency (subject to the FMFIA) shall submit a report to the President and Congress on the status of management controls and financial systems that protect the integrity of agency programs and administrative activities. NRC makes its FMFIA assessment and report in its annual *Accountability Report*.

Office of Management and Budget Circular A-123, Revised, *Management Accountability and Control*, is the implementing guidance for FMFIA. The term "internal controls," as envisioned by the FMFIA, is synonymous with "management controls" and encompasses program and administrative areas, as well as the accounting and financial management areas. NRC Management Directive 4.4, *Management Controls*, is the agency's implementing guidance for FMFIA and Circular A-123.

RESULTS

NRC complied with FMFIA requirements for FY 2000. Although NRC is not reporting any material weaknesses, OIG will continue to report two weaknesses: (1) the absence of a managerial cost accounting process, and (2) inadequate controls over NRC's license fee development process. These are the same material weaknesses referenced in OIG's reports on FMFIA¹ and FY 1999 financial statements².

In FY 1999, the managerial cost accounting weakness also included an inability to aggregate pay transactions to the strategic arena level. In FY 2000, the agency developed an interim data collection method that resolves this aspect of the material weakness.

OIG first reported the lack of managerial cost accounting as a material weakness in the reports on FMFIA³ and FY 1998 financial statements.⁴ NRC is actively pursuing a resolution to this issue. However, OIG will continue to report it as a material weakness until NRC successfully implements managerial cost accounting.

Although NRC advised OIG that the agency took corrective actions for NRC's license fee development process, these actions were not completed until the beginning of FY 2001. As a result, the condition remained in effect for the entire fiscal year. We will assess the adequacy of corrective actions during FY 2001.

CONCLUSION

NRC complied with the requirements of the FMFIA for FY 2000. However, as in FY 1999, OIG disagrees with NRC's assessment that the absence of managerial cost accounting is not a material weakness. This activity is intended to be an agency-wide function to better manage NRC's resources. NRC is giving priority attention to this issue. Inadequate management

¹ OIG Report 00A-04, *Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 1999*, dated March 9, 2000.

² OIG Report 99A-12, *Independent Auditors' Report and Principal Statements for the Year Ended September 30, 1999*, dated February 28, 2000.

³ OIG Report 99A-11, *Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 1998*, dated March 3, 1999.

⁴ OIG Report 98A-09, *Independent Auditors' Report and the Principal Statements for the Year Ended September 30, 1998*, dated March 1, 1999.

controls over the license fee development process is a continuing material weakness for FY 2000 because the agency advised that corrective actions were not completed until FY 2001.

These issues are material to the agency as a whole, and therefore “merits the attention of the Executive Office of the President,” as stated in MD 4.4.

AGENCY COMMENTS

On February 14, 2001, the CFO and the EDO responded to our draft report (Attachment I). They disagreed that the lack of managerial cost accounting and management control deficiencies over fee development are material weaknesses. OIG will continue to report these issues as material weaknesses until the agency implements corrective actions.

SCOPE/CONTRIBUTORS

OIG evaluated the management controls related to the NRC's implementation of FMFIA for FY 2000, and conducted its work in January 2001, in accordance with generally accepted Government auditing standards. This review was conducted by Anthony Lipuma.

If you have any questions or concerns regarding this report, please contact Anthony Lipuma 415-5910 or me at 415-5915.

Attachment: As stated

cc: Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield
John Craig, OEDO

cc: R. McOsker, OCM/RAM
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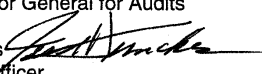
AGENCY'S RESPONSE TO DRAFT REPORT

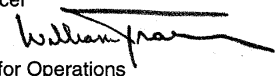


UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

February 14, 2001

MEMORANDUM TO: Stephen D. Dingbaum
Assistant Inspector General for Audits

FROM: Jesse L. Funches 
Chief Financial Officer

William D. Travers 
Executive Director for Operations

SUBJECT: RESPONSE TO DRAFT MEMORANDUM REPORT - THE FY 2000
FMFIA REPORT (OIG-01-A-07)

We have reviewed the subject report and disagree that the incomplete implementation of managerial cost accounting or deficiencies associated with the management controls over fee development should be considered material weaknesses under the Federal Manager's Financial Integrity Act (FMFIA). At their December 19, 2000, meeting, the extended EC endorsed the conclusion that no material weaknesses had been identified that met the FMFIA criteria. These conditions do not: (1) impair the fulfillment of the mission of the agency or an agency component; (2) deprive the public of needed services; (3) significantly weaken the agency safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or (4) result in a conflict of interest. As such, this condition does not rise to the level of severity that its relative risk warrants external reporting to the President and the Congress.

Thank you for the opportunity to comment on this report.

cc: J. Craig, OEDO

Contact: Carl F. Dolinka, OCFO
415-5646

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